

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Westphalia	County Clinton
Fiscal Year End 2/28/06	Opinion Date 5/3/06	Date Audit Report Submitted to State 8/8/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

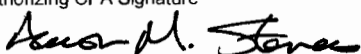
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES NO** Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens	License Number 1101024055	

**Village of Westphalia  
Clinton County, Michigan**

**FINANCIAL STATEMENTS**

**February 28, 2006**

Village of Westphalia  
Clinton County, Michigan

February 28, 2006

VILLAGE COUNCIL AND ADMINISTRATION

Mr. Charles Schafer	President
Mr. Mark Schafer	Mayor Pro-Tem
Mr. Dave Boswell	Trustee
Mr. Stan Bauer	Trustee
Mr. Dean Kohagen	Trustee
Mr. Steve Miller	Trustee
Mr. Nort Upson	Trustee
Ms. Sandy Smith	Clerk
Ms. Wendy Thelen	Treasurer

Village of Westphalia  
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February 28, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and  
Members of the Village Council  
Village of Westphalia  
Westphalia, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Westphalia, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Westphalia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Westphalia, Michigan as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Westphalia's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

May 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

The following is a discussion and analysis of Village of Westphalia's (the Village's) financial performance and position, providing an overview of the activities for the year ended February 28, 2006. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section. Fiscal year 2005-2006 represents the second year the Village implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*.

**FINANCIAL HIGHLIGHTS**

**Government-wide:**

- Total net assets were \$2,041,399.
- Governmental activities net assets were \$953,518.
- Business-type activities net assets were \$1,087,881.

**Fund Level:**

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$435,340 with \$123,787 being designated for future capital projects.
- The General Fund realized \$4,944 more in revenues than anticipated for the fiscal year. The General Fund operations expended \$31,040 less than appropriated.
- Overall, the General Fund balance increased by \$21,873 to \$168,890.

**Capital and Long-term Debt Activities:**

- The Village issued no new debt issues for the year.
- The total long-term debt of \$19,000 was paid off during the year.
- The Village remains well below its authorized legal debt limit.
- The total net change to the capital asset schedule for the primary government was \$5,642.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds.

**Government-wide Financial Statements (Reporting the Village as a Whole)**

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during the 2005-2006 fiscal year. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the Village's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the Village's general government departments, law enforcement, economic development, Village improvements, street improvements, recreation activities, and other Village-wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The Village charges fees to recover the cost of the services provided. The Water System Fund and the Sewer System Fund make up the business-type activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.

In addition, it should be noted that the government-wide financial statements include the net value of the Village's general capital assets such as buildings, land, vehicles, equipment, infrastructure, etc. These values are not included in the fund financial statements.

**Fund Financial Statements (Reporting the Village's Major Funds)**

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Westphalia include the General Fund, the Major Street Fund, the Equipment Replacement Fund, the Sewer System Fund, and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The Village includes detailed information on its nonmajor funds in the other supplementary information section of this report.

The Village's funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- **Governmental Funds** - Most of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted).
- **Proprietary Funds** - Services for which the Village charges customers (whether outside the Village structure or a Village department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. The Village has one type of proprietary fund. *Enterprise funds* report activities that provide supplies and/or services to the general public. Examples are the Sewer System Fund and the Water System Fund.

**Notes to the Financial Statements**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 12 of this report.

**Required Supplementary Information**

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

**Other Supplementary Information**

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.



Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

**FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE**

As previously stated, the Village of Westphalia's combined net assets were \$2,041,399 at the end of this year's operations. The net assets of the governmental activities were \$953,518; the business-type activities were \$1,087,881.

**Summary of Net Assets:**

The following summarizes the net assets as of February 28, 2006.

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Assets</b>						
Current and other assets	\$ 445,842	\$ 378,990	\$ 595,988	\$ 569,944	\$ 1,041,830	\$ 948,934
Capital assets	518,178	512,536	492,434	537,518	1,010,612	1,050,054
Total assets	964,020	891,526	1,088,422	1,107,462	2,052,442	1,998,988
<b>Liabilities</b>						
Current liabilities	10,502	11,216	421	19,581	10,923	30,797
Noncurrent liabilities	-	-	120	120	120	120
Total liabilities	10,502	11,216	541	19,701	11,043	30,917
<b>Net Assets</b>						
Invested in capital assets-						
net of related debt	518,178	512,536	492,434	518,518	1,010,612	1,031,054
Restricted	144,272	105,811	-	-	144,272	105,811
Unrestricted	291,068	261,963	595,447	569,243	886,515	831,206
Total net assets	<b>\$ 953,518</b>	<b>\$ 880,310</b>	<b>\$ 1,087,881</b>	<b>\$ 1,087,761</b>	<b>\$ 2,041,399</b>	<b>\$ 1,968,071</b>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's net assets changed during the fiscal year:

**Changes in Net Assets for the Fiscal Year Ended February 28, 2006**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Revenues</b>						
Program Revenue:						
Charges for services	\$ 70,151	\$ 134,344	\$ 98,353	\$ 92,482	\$ 168,504	\$ 226,826
Grants and Contributions	69,891	65,265	-	-	69,891	65,265
General Revenues:						
Property Taxes	172,306	166,498	-	-	172,306	166,498
State Shared Revenue	69,574	71,525	-	-	69,574	71,525
Investment Earnings	8,163	6,908	7,399	5,160	15,562	12,068
Miscellaneous	7,198	6,734	-	-	7,198	6,734
Total Revenues	397,283	451,274	105,752	97,642	503,035	548,916

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

**Changes in Net Assets for the Fiscal Year Ended February 28, 2006 - continued**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
<b>Expenses</b>						
General Government	\$ 230,337	\$ 205,458	\$ -	\$ -	\$ 230,337	\$ 205,458
Public Safety	11,439	11,639	-	-	11,439	11,639
Public Works	38,247	125,193	-	-	38,247	125,193
Health and Welfare	8,076	6,236	-	-	8,076	6,236
Community and						
Economic Development	8,931	13,999	-	-	8,931	13,999
Recreation and Cultural	14,123	14,693	-	-	14,123	14,693
Other	12,922	9,737	-	-	12,922	9,737
Sewer System Operations	-	-	55,278	62,896	55,278	62,896
Water System Operations	-	-	50,354	57,546	50,354	57,546
<b>Total Expenses</b>	<b>324,075</b>	<b>386,955</b>	<b>105,632</b>	<b>120,442</b>	<b>429,707</b>	<b>507,397</b>
 Change in net assets	 73,208	 64,319	 120	 (22,800)	 73,328	 41,519
 Net assets, beginning of year	 880,310	 815,991	 1,087,761	 1,110,561	 1,968,071	 1,926,552
 Net assets, end of year	 <u>\$ 953,518</u>	 <u>\$ 880,310</u>	 <u>\$ 1,087,881</u>	 <u>\$ 1,087,761</u>	 <u>\$ 2,041,399</u>	 <u>\$ 1,968,071</u>

**Governmental Activities:**

The result of 2005-2006 governmental activity was an increase of \$73,208 in net assets to \$953,518. Of the total governmental activities' net assets, \$518,178 is invested in capital assets less related debt, \$144,272 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute or by another authority outside the Village government. The balance of \$291,068 is listed as unrestricted, having no legal commitment.

**Revenues:**

The three largest revenue categories were property taxes at 43%, charges for services at 18%, and grants and contributions at 18%. The Village levied one property tax millage for the year ended February 28, 2006, for general government operations at 8 mills, which is not assigned to any particular activity.

**Expenses:**

General government is the largest governmental activity, expending approximately 71% of the governmental activities total and includes the Legislative, President, Clerk, Treasurer, Assessor, Elections, and Hall and Grounds departments. Public works is the second largest activity, expending approximately 12% of the governmental activities total and includes public street maintenance and refuse collection.

**Business-type Activities:**

Net assets in business-type activities increased by \$120 during the 2005-2006 fiscal year. Of the business-type activities' net assets, \$492,434 is invested in capital assets less related debt. The balance of \$595,447 is listed as unrestricted, having no legal commitment.

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

**FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR AND NONMAJOR FUNDS**

As the Village completed the 2005-2006 fiscal year, its governmental funds reported *combined* fund balances of \$435,340. This was a net increase of \$67,566. The net changes are summarized in the following chart:

	<u>General Fund</u>	<u>Major Street</u>	<u>Equipment Replacement</u>	<u>Nonmajor Governmental Funds</u>
<b>Fund Balance 2/28/05</b>	\$ 147,017	\$ 39,608	\$ 102,863	\$ 78,286
<b>Fund Balance 2/28/06</b>	<u>168,890</u>	<u>67,871</u>	<u>104,183</u>	<u>94,396</u>
<b>Net Change</b>	<u>\$ 21,873</u>	<u>\$ 28,263</u>	<u>\$ 1,320</u>	<u>\$ 16,110</u>

**General Fund:**

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of February 28, 2006, the General Fund reported a fund balance of \$168,890. This amount is an increase of \$21,873 from the fund balance of \$147,017 reported as of February 28, 2005. The 2005-2006 original budget called for a \$6,650 use of fund balance.

**General Fund Budgetary Highlights:**

The Village of Westphalia's budget is a dynamic document. Although adopted in March each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenues totaled \$317,444; \$4,944 above the final amended budget. The final amended and original budgets were the same. The largest variance between actual revenues and the final amended budget was in charges for services. The Village did not amend the revenue budget for charges to other funds related to the street maintenance project that commenced during the fiscal year.

The Village's expenditure budget was increased by \$4,600 (less than 2% above the original budget) during the fiscal year. Actual Village expenditures and other financing uses for the fiscal year were \$31,040 under budget. General Fund actual expenditures and other financing uses were \$295,571 and the final budgeted amounts totaled \$323,750, which was a 10% difference.

**Major Street Fund:**

As of February 28, 2006, the Major Street Fund reported a fund balance of \$67,871, an increase of \$28,263 from the prior year's fund balance. The total fund balance is undesignated/unreserved.

The original budget and the final budget were the same for revenues and expenditures in this fund.

**Equipment Replacement Fund:**

As of February 28, 2006, the Equipment Replacement Fund reported a fund balance of \$104,183, an increase of \$1,320 from the prior year. The total fund balance is undesignated/unreserved. A budget was not adopted for this fund.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets - At the end of the fiscal year, the Village had invested \$1,010,612, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$1,451,991 for the primary government. Depreciation charges for the fiscal year totaled \$61,956 for the primary government. Additional information related to capital assets is detailed in Note F of the Financial Statements. Net book value of capital assets at February 28, 2006, was as follows:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Land	\$ 220,778	\$ -	\$ 220,778
Construction in progress	23,857	-	23,857
Buildings and improvements, net	54,035	-	54,035
Machinery and equipment, net	74,626	-	74,626
Vehicles, net	3,909	-	3,909
Sewer system, net	-	243,651	243,651
Water system, net	-	248,783	248,783
Infrastructure, net	<u>140,973</u>	<u>-</u>	<u>140,973</u>
<b>Capital assets, net</b>	<b><u>\$ 518,178</u></b>	<b><u>\$ 492,434</u></b>	<b><u>\$ 1,010,612</u></b>

Long-term Debt - As of February 28, 2006, the Village has no outstanding debt. The final payment on the 1993 Water System Refunding Bonds was paid on November 1, 2005.

**Outstanding Debt as of February 28, 2006:**

	<u>March 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Feb. 28, 2006</u>
Business-type Activities				
1993 Refunding Bonds	<u>\$ 19,000</u>	<u>\$ -</u>	<u>\$ 19,000</u>	<u>\$ -0-</u>

A more detailed discussion of the Village's long-term debt obligations is presented in Note G to the Financial Statements.

**VILLAGE OF WESTPHALIA GOVERNMENT ECONOMIC OUTLOOK**

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Further cuts in revenue sharing funds could affect the services that we provide to the citizens of the Village of Westphalia.

Other factors that the Village is aware of are:

- Property tax revenue does seem to be keeping pace with inflation.
- Investment earnings are at historically low levels due to low market interest rates.
- Health insurance premiums are rising much faster than the rate of inflation.
- Retirement costs are increasing due to poor stock market performance over the last several years.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the budget for the 2006-2007 fiscal year. The Village continues to look for ways to increase efficiencies and reduce the cost of doing business.

Village of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

**CONTACTING THE VILLAGE**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at (989) 587-4434.

## **BASIC FINANCIAL STATEMENTS**

Village of Westphalia

STATEMENT OF NET ASSETS

February 28, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 329,565	\$ 340,109	\$ 669,674
Investments	91,746	234,998	326,744
Receivables	1,985	20,160	22,145
Due from other governmental units	23,147	-	23,147
Internal balances	(601)	601	-0-
Total current assets	445,842	595,868	1,041,710
Noncurrent assets			
Cash - restricted	-	120	120
Capital assets not being depreciated	244,635	-	244,635
Capital assets, net accumulated depreciation	273,543	492,434	765,977
Total noncurrent assets	518,178	492,554	1,010,732
TOTAL ASSETS	964,020	1,088,422	2,052,442
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	5,720	282	6,002
Accrued liabilities	4,782	139	4,921
Total current liabilities	10,502	421	10,923
Noncurrent liabilities			
Payable from restricted cash - customer deposits payable	-	120	120
TOTAL LIABILITIES	10,502	541	11,043
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	518,178	492,434	1,010,612
Restricted for streets and highways	144,272	-	144,272
Unrestricted	291,068	595,447	886,515
TOTAL NET ASSETS	\$ 953,518	\$ 1,087,881	\$ 2,041,399

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
General government	\$ 230,337	\$ 57,237	\$ 2,203	\$ (170,897)	\$ -	\$ (170,897)
Public safety	11,439	-	-	(11,439)	-	(11,439)
Public works	38,247	-	66,888	28,641	-	28,641
Health and welfare	8,076	3,344	-	(4,732)	-	(4,732)
Community and economic development	8,931	-	-	(8,931)	-	(8,931)
Recreation and cultural	14,123	9,570	800	(3,753)	-	(3,753)
Other	12,922	-	-	(12,922)	-	(12,922)
Total governmental activities	324,075	70,151	69,891	(184,033)	-0-	(184,033)
Business-type activities						
Sewer system	55,278	43,198	-	-	(12,080)	(12,080)
Water system	50,354	55,155	-	-	4,801	4,801
Total business-type activities	105,632	98,353	-0-	-0-	(7,279)	(7,279)
Total	\$ 429,707	\$ 168,504	\$ 69,891	(184,033)	(7,279)	(191,312)
General revenues						
Property taxes				172,306	-	172,306
State shared revenue				69,574	-	69,574
Investment earnings				8,163	7,399	15,562
Miscellaneous				7,198	-	7,198
Total general revenues				257,241	7,399	264,640
Change in net assets						
				73,208	120	73,328
Net assets, beginning of the year				880,310	1,087,761	1,968,071
Net assets, end of the year				\$ 953,518	\$ 1,087,881	\$ 2,041,399

See accompanying notes to financial statements.



Village of Westphalia

GOVERNMENTAL FUNDS BALANCE SHEET

February 28, 2006

	General	Major Street	Equipment Replacement
<b>ASSETS</b>			
Cash and cash equivalents	\$ 140,797	\$ 49,011	\$ 74,436
Investments	20,000	14,999	29,747
Accounts receivable	1,985	-	-
Due from other governmental units	11,644	7,996	-
Due from other funds	12,173	-	-
<b>TOTAL ASSETS</b>	<b>\$ 186,599</b>	<b>\$ 72,006</b>	<b>\$ 104,183</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 5,720	\$ -	\$ -
Accrued liabilities	4,782	-	-
Due to other funds	7,207	4,135	-
<b>TOTAL LIABILITIES</b>	<b>17,709</b>	<b>4,135</b>	<b>-0-</b>
<b>FUND BALANCES</b>			
Unreserved			
Designated for future capital projects	123,787	-	-
Undesignated, reported in			
General fund	45,103	-	-
Special revenue funds	-	67,871	104,183
<b>TOTAL FUND BALANCES</b>	<b>168,890</b>	<b>67,871</b>	<b>104,183</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 186,599</b>	<b>\$ 72,006</b>	<b>\$ 104,183</b>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 65,321	\$ 329,565
27,000	91,746
-	1,985
3,507	23,147
-	12,173
<u>\$ 95,828</u>	<u>\$ 458,616</u>
\$ -	\$ 5,720
-	4,782
<u>1,432</u>	<u>12,774</u>
1,432	23,276
-	123,787
-	45,103
<u>94,396</u>	<u>266,450</u>
<u>94,396</u>	<u>435,340</u>
<u>\$ 95,828</u>	<u>\$ 458,616</u>

Village of Westphalia

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

February 28, 2006

**Total fund balance - governmental funds** \$ 435,340

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 648,490
Accumulated depreciation is	<u>(130,312)</u>

Capital assets, net	<u>518,178</u>
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<b>Net assets of governmental activities</b>	<u><u>\$ 953,518</u></u>
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See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended February 28, 2006

	General	Major Street	Equipment Replacement
REVENUES			
Taxes	\$ 172,306	\$ -	\$ -
Licenses and permits	925	-	-
Intergovernmental	74,921	44,308	-
Charges for services	59,656	-	-
Interest and rents	3,141	476	1,412
Other	6,495	-	-
TOTAL REVENUES	317,444	44,784	1,412
EXPENDITURES			
Current			
General government	214,275	-	-
Public safety	11,439	-	-
Public works	174	16,521	-
Health and welfare	8,076	-	-
Community and economic development	8,931	-	-
Recreation and cultural	2,861	-	-
Other	12,922	-	-
Capital outlay	34,793	-	92
TOTAL EXPENDITURES	293,471	16,521	92
EXCESS OF REVENUES OVER EXPENDITURES	23,973	28,263	1,320
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(2,100)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(2,100)	-0-	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	21,873	28,263	1,320
Fund balances, beginning of year	147,017	39,608	102,863
Fund balances, end of year	\$ 168,890	\$ 67,871	\$ 104,183

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 172,306
-	925
20,236	139,465
9,570	69,226
3,134	8,163
703	7,198
33,643	397,283
-	214,275
-	11,439
9,821	26,516
-	8,076
-	8,931
9,812	12,673
-	12,922
-	34,885
19,633	329,717
14,010	67,566
2,100	2,100
-	(2,100)
2,100	-0-
16,110	67,566
78,286	367,774
\$ 94,396	\$ 435,340

Village of Westphalia

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

**Net change in fund balances - total governmental funds** \$ 67,566

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 22,514	
Depreciation expense	<u>(16,872)</u>	
Excess of capital outlay over depreciation expense		<u>5,642</u>
<b>Change in net assets of governmental activities</b>		<u><u>\$ 73,208</u></u>

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

February 28, 2006

	Business-type Activities		
	Sewer System	Water System	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 229,384	\$ 110,725	\$ 340,109
Investments	154,999	79,999	234,998
Accounts receivable	11,198	8,962	20,160
Due from other funds	10,180	7,207	17,387
Total current assets	405,761	206,893	612,654
Noncurrent assets			
Cash - restricted	78	42	120
Capital assets, net	243,651	248,783	492,434
Total noncurrent assets	243,729	248,825	492,554
TOTAL ASSETS	649,490	455,718	1,105,208
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	110	172	282
Accrued liabilities	6	133	139
Due to other funds	3,808	12,978	16,786
Total current liabilities	3,924	13,283	17,207
Noncurrent liabilities			
Payable from restricted cash - customer deposits payable	78	42	120
TOTAL LIABILITIES	4,002	13,325	17,327
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	243,651	248,783	492,434
Unrestricted	401,837	193,610	595,447
TOTAL NET ASSETS	\$ 645,488	\$ 442,393	\$ 1,087,881

See accompanying notes to financial statements.

Village of Westphalia

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUNDS

Year Ended February 28, 2006

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 43,198	\$ 55,155	\$ 98,353
OPERATING EXPENSES			
Labor charges	11,555	13,343	24,898
Fringe benefits	713	823	1,536
Contractual services	612	545	1,157
Supplies	1,244	3,442	4,686
Utilities	1,837	3,408	5,245
Other	9,517	13,024	22,541
Depreciation	29,800	15,284	45,084
TOTAL OPERATING EXPENSES	55,278	49,869	105,147
OPERATING INCOME (LOSS)	(12,080)	5,286	(6,794)
NONOPERATING REVENUES			
Interest revenue	6,145	1,254	7,399
Interest expense	-	(485)	(485)
TOTAL NONOPERATING REVENUES	6,145	769	6,914
CHANGE IN NET ASSETS	(5,935)	6,055	120
Net assets, beginning of year	651,423	436,338	1,087,761
Net assets, end of year	\$ 645,488	\$ 442,393	\$ 1,087,881

See accompanying notes to financial statements.



Village of Westphalia

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended February 28, 2006

	Business-type Activities		
	Sewer System	Water System	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers	\$ 44,542	\$ 54,908	\$ 99,450
Cash paid for employees	(12,262)	(14,358)	(26,620)
Cash paid to suppliers	(13,774)	(19,576)	(33,350)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>18,506</b>	<b>20,974</b>	<b>39,480</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	(40,000)	(65,000)	(105,000)
Interest revenue	6,145	1,254	7,399
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<b>(33,855)</b>	<b>(63,746)</b>	<b>(97,601)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Payments of borrowing	-	(19,000)	(19,000)
Interest expense	-	(485)	(485)
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>-0-</b>	<b>(19,485)</b>	<b>(19,485)</b>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(15,349)</b>	<b>(62,257)</b>	<b>(77,606)</b>
Cash and cash equivalents, beginning of year	244,811	173,024	417,835
Cash and cash equivalents, end of year	<u>\$ 229,462</u>	<u>\$ 110,767</u>	<u>\$ 340,229</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>			
Operating income (loss)	\$ (12,080)	\$ 5,286	\$ (6,794)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	29,800	15,284	45,084
(Increase) decrease in accounts receivable	61	(247)	(186)
Decrease in due from other funds	1,283	-	1,283
Increase in accounts payable	6	20	26
Increase (decrease) in other accrued liabilities	6	(192)	(186)
Increase (decrease) in due to other funds	(570)	823	253
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>\$ 18,506</b></u>	<u><b>\$ 20,974</b></u>	<u><b>\$ 39,480</b></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Westphalia is located in Clinton County, Michigan and has a population of approximately 880. The Village of Westphalia operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President and a maximum of six (6) trustees who are selected at large for overlapping four year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Westphalia. The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of the Village of Westphalia contain all the funds controlled by the Village Council.

**2. Basis of Presentation**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All activities of the primary government are included. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

**FUND FINANCIAL STATEMENTS**

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**FUND FINANCIAL STATEMENTS - CONTINUED**

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Equipment Replacement Fund is used to account for the financial resources that are used for repairs and replacement of the Village's equipment.
- d. The Sewer System Fund accounts for resources generated by providing sewer services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Water System Fund accounts for resources generated by providing water services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

**3. Measurement Focus**

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**4. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used to define "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**4. Basis of Accounting - continued**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

**5. Budgets and Budgetary Accounting**

The General and Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. During the month of March, the Village Budget Committee submits their proposed operating budgets for the fiscal year commencing the previous March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. During the month of March, the budget is legally adopted with passage by Council vote.
- d. The budget is legally adopted at the activity level for the General Fund and at the fund level in the Special Revenue Funds.
- e. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 28, 2006 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council in accordance with required procedures.

**6. Cash, Cash Equivalents, and Investments**

Cash equivalents are temporary investments that consist of various money market checking accounts. The cash and cash equivalents are recorded at market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All certificates of deposit held by the Village at year-end are classified as investments.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

7. Restricted Cash and Investments

A portion of the cash and cash equivalents of the Sewer System and Water System Funds are classified as restricted cash and investments because their use is limited. The Sewer System and Water System Fund's restrictions are for the amount of customer deposits held at February 28, 2006.

8. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental and business-type activities columns. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Infrastructure - streets	30 years
Buildings and improvements	50 years
Vehicles	8 years
Machinery and equipment	10-15 years
Water and sewer systems	40 years

9. Property Tax

The Village of Westphalia bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Westphalia on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 14 are turned over to the Clinton County Treasurer for collection. The Clinton County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 10.9795 mills (approximately \$10.98 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 28, 2006, the Village levied 8 mills for general governmental services. The total taxable value for the 2005 levy for property within the Village was \$21,206,221.

10. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as transfers.

The General Fund records charges for equipment rental and administrative costs to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

11. Compensated Absences

Accumulated vacation and sick pay amounts of the Department of Public Works (DPW) employees are vested (i.e., are payable at termination). As of February 28, 2006, DPW employees had no material accumulated unused vacation and sick amounts recorded in the government-wide financial statements.

Accumulated vacation and sick pay amounts for all other Village employees do not vest (i.e., are not payable at termination) and therefore have not been recorded in the government-wide financial statements.

12. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

As of February 28, 2006, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking accounts	\$ 641,287	\$ 672,823
Savings accounts	28,507	29,115
Certificates of Deposit	<u>326,744</u>	<u>327,000</u>
Total	<u>\$ 996,538</u>	<u>\$ 1,028,938</u>

Deposits of the Village are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Village. As of February 28, 2006, the Village's accounts were insured by the FDIC for \$329,115 the amount of \$699,823 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of February 28, 2006, the Village did not have any investments that would be subject to rating.

Interest rate risk

The Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of credit risk

The Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk

The Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

The cash and investments referred to above have been reported in either the cash or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of February 28, 2006:

Cash and cash equivalents	\$ 669,674
Cash and cash equivalents - restricted	120
Investments	<u>326,744</u>
	<u>\$ 996,538</u>

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - RESTRICTED**

The following summarizes the restricted cash and cash equivalents as of February 28, 2006:

	Customer Deposits
Cash and cash equivalents	
Enterprise Funds	<u>\$ 120</u>

**NOTE D: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details primary government interfund receivables and payables at February 28, 2006:

Due to General Fund from:	
Major Street Fund	\$ 4,135
Water Fund	2,798
Sewer Fund	3,808
Nonmajor governmental funds	<u>1,432</u>
	12,173
Due to Sewer Fund from:	
Water Fund	10,180
Due to Water Fund from:	
General Fund	<u>7,207</u>
	<u>\$ 29,560</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date



Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE E: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:  
General Fund

\$ 2,100

**NOTE F: CAPITAL ASSETS**

Capital asset activity for the year ended February 28, 2006 was as follows:

**Governmental activities**

	Balance Mar. 1, 2005	Additions	Deletions	Balance Feb. 28, 2006
Capital assets not being depreciated:				
Land	\$ 220,778	\$ -	\$ -	\$ 220,778
Construction in progress	<u>4,036</u>	<u>19,821</u>	<u>-</u>	<u>23,857</u>
Total capital assets not being depreciated	224,814	19,821	-0-	244,635
Capital assets being depreciated:				
Infrastructure - streets	148,392	-	-	148,392
Buildings and improvements	70,982	-	-	70,982
Vehicles	63,508	-	-	63,508
Machinery and equipment	<u>118,280</u>	<u>2,693</u>	<u>-</u>	<u>120,973</u>
Total at historical cost	401,162	2,693	-0-	403,855
Less accumulated depreciation for:				
Infrastructure - streets	( 2,473 )	( 4,946 )	-	( 7,419 )
Buildings and improvements	( 15,527 )	( 1,420 )	-	( 16,947 )
Vehicles	( 56,992 )	( 2,607 )	-	( 59,599 )
Machinery and equipment	<u>( 38,448 )</u>	<u>( 7,899 )</u>	<u>-</u>	<u>( 46,347 )</u>
Total accumulated depreciation	<u>( 113,440 )</u>	<u>( 16,872 )</u>	<u>-0-</u>	<u>( 130,312 )</u>
Net capital assets being depreciated	<u>287,722</u>	<u>( 14,179 )</u>	<u>-0-</u>	<u>273,543</u>
Capital assets, net	<u>\$ 512,536</u>	<u>\$ 5,642</u>	<u>\$ -0-</u>	<u>\$ 518,178</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 998
Public works	14,424
Recreation and cultural	<u>1,450</u>
Total depreciation expense	<u>\$ 16,872</u>

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Business-type activities**

	Balance Mar 1, 2005	Additions	Deletions	Balance Feb. 28, 2006
Capital assets being depreciated:				
Sewer system	\$ 1,192,006	\$ -	\$ -	\$ 1,192,006
Water system	622,107	-	-	622,107
<b>Total at historical cost</b>	<b>1,814,113</b>	<b>-0-</b>	<b>-0-</b>	<b>1,814,113</b>
Less accumulated depreciation for:				
Sewer system	( 918,555 )	( 29,800 )	-	( 948,355 )
Water system	( 358,040 )	( 15,284 )	-	( 373,324 )
<b>Total accumulated depreciation</b>	<b>(1,276,595 )</b>	<b>( 45,084 )</b>	<b>-0-</b>	<b>(1,321,679 )</b>
<b>Net capital assets - business-type activities</b>	<b>\$ 537,518</b>	<b>\$ ( 45,084 )</b>	<b>\$ -0-</b>	<b>\$ 492,434</b>

**NOTE G: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended February 28, 2006:

	Balance Mar. 1, 2005	Additions	Deletions	Balance Feb. 28, 2006	Amounts Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
Business-type activities					
Water System Fund					
1993 Refunding Bonds	\$ 19,000	\$ -	\$ 19,000	\$ -0-	\$ -0-

**NOTE H: RETIREMENT PLAN**

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires no contribution from the employees.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE H: RETIREMENT PLAN - CONTINUED**

Annual Pension Cost

For year ended February 28, 2006, the Village's annual pension cost of \$6,935 for the plan was more than the Village's actuarially estimated annual contribution of \$6,804. The annual estimated contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining unfunded actuarial liability is being amortized over thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 189,582	\$ 213,080	\$ 233,000
Actuarial accrued liability (AAL) (entry age)	232,360	255,620	282,201
Unfunded AAL	42,778	42,540	49,201
Funded ratio	82 %	83 %	83 %
Covered payroll	74,351	78,877	81,253
UAAL as a percentage of covered payroll	58 %	54 %	61 %

	Year Ended February 28,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ 6,314	\$ 6,523	\$ 6,935
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

**NOTE I: RISK MANAGEMENT**

The Village is exposed to various risks of loss including accidental death, dismemberment, disability, employer's liability, errors and omissions, and workers' compensation for which the Village carries commercial insurance.

**NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED**

During the year ended February 28, 2006, the Village incurred expenditures in the General Fund and one (1) Special Revenue Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Legislative	\$ 6,100	\$ 6,627	\$ 527
President	7,000	7,222	222
Clerk	17,600	18,565	965
Assessor	-	202	202
Health and Welfare			
Ambulance	8,000	8,076	76
Community and economic development			
Planning commission	8,700	8,931	231
Other			
Audit fees	6,000	6,250	250
Legal fees	2,500	4,784	2,284
Capital outlay	30,000	34,793	4,793
Special Revenue Fund			
Equipment Replacement	-	92	92

Several of the variances noted in the General Fund were caused by adjustments proposed and posted during the audit process.

**NOTE K: FUND EQUITY RESERVES AND DESIGNATIONS**

Reserved fund balance and net assets are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures/expenses or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes. These amounts have been recorded at the fund level for governmental funds only to indicate management's plans for these funds.

As of February 28, 2006, a portion of the General Fund fund balance had been designated in the amount of \$123,787 for future capital projects.

Village of Westphalia

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

**NOTE L: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of February 28, 2006:

PRIMARY GOVERNMENT

Governmental activities

Restricted for

Streets and highways

Major streets

\$ 67,871

Local streets

76,401

\$ 144,272

## REQUIRED SUPPLEMENTARY INFORMATION

Village of Westphalia

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 167,000	\$ 167,000	\$ 172,306	\$ 5,306
Licenses and permits	500	500	925	425
Intergovernmental - state	60,000	60,000	74,921	14,921
Charges for services	81,500	81,500	59,656	(21,844)
Interest and rents	1,500	1,500	3,141	1,641
Other	2,000	2,000	6,495	4,495
TOTAL REVENUES	312,500	312,500	317,444	4,944
EXPENDITURES				
Current				
General government				
Legislative	6,100	6,100	6,627	(527)
President	7,000	7,000	7,222	(222)
Clerk	14,000	17,600	18,565	(965)
Treasurer	3,550	3,550	2,513	1,037
Assessor	200	-	202	(202)
Elections	1,100	1,100	-	1,100
Hall and grounds	201,500	201,500	179,146	22,354
Total general government	233,450	236,850	214,275	22,575
Public safety				
Police department	13,000	13,000	11,439	1,561
Fire department	13,200	13,200	-	13,200
Total public safety	26,200	26,200	11,439	14,761
Public Works				
Refuse collection	200	200	174	26
Health and welfare				
Ambulance	8,000	8,000	8,076	(76)
Community and economic development				
Planning commission	7,000	8,700	8,931	(231)
Zoning commission	500	-	-	-0-
Total community and economic development	7,500	8,700	8,931	(231)
Recreation and cultural				
Parks and recreation	-	-	2,861	(2,861)

Village of Westphalia

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended February 28, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
Other				
Audit fees	\$ 6,000	\$ 6,000	\$ 6,250	\$ (250)
Legal fees	2,500	2,500	4,784	(2,284)
Miscellaneous	2,800	2,800	1,888	912
Total other	11,300	11,300	12,922	(1,622)
Capital outlay	30,000	30,000	34,793	(4,793)
TOTAL EXPENDITURES	316,650	321,250	293,471	30,640
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,150)	(8,750)	23,973	35,584
OTHER FINANCING USES				
Transfers out	(2,500)	(2,500)	(2,100)	400
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(6,650)	(11,250)	21,873	35,984
Fund balance, beginning of year	147,017	147,017	147,017	-0-
Fund balance, end of year	<u>\$ 140,367</u>	<u>\$ 135,767</u>	<u>\$ 168,890</u>	<u>\$ 33,123</u>



Village of Westphalia

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - State	\$ 40,000	\$ 40,000	\$ 44,308	\$ 4,308
Charges for services	4,000	4,000	-	(4,000)
Interest	500	500	476	(24)
TOTAL REVENUES	44,500	44,500	44,784	284
EXPENDITURES				
Current				
Public works				
Administrative	21,850	21,850	8,551	13,299
Street maintenance	21,100	21,100	7,970	13,130
TOTAL EXPENDITURES	42,950	42,950	16,521	26,429
EXCESS OF REVENUES OVER EXPENDITURES	1,550	1,550	28,263	26,713
Fund balance, beginning of year	39,608	39,608	39,608	-0-
Fund balance, end of year	<u>\$ 41,158</u>	<u>\$ 41,158</u>	<u>\$ 67,871</u>	<u>\$ 26,713</u>

Village of Westphalia

Equipment Replacement Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ -	\$ -	\$ 1,412	\$ 1,412
EXPENDITURES				
Capital outlay	-	-	92	(92)
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	1,320	1,320
Fund balance, beginning of year	102,863	102,863	102,863	-0-
Fund balance, end of year	<u>\$ 102,863</u>	<u>\$ 102,863</u>	<u>\$ 104,183</u>	<u>\$ 1,320</u>

## **OTHER SUPPLEMENTARY INFORMATION**

Village of Westphalia

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

February 28, 2006

	Special Revenue		Total Nonmajor Governmental Funds
	Local Street	Parks and Recreation	
ASSETS			
Cash and cash equivalents	\$ 47,326	\$ 17,995	\$ 65,321
Investments	27,000	-	27,000
Due from other governmental units - state	3,507	-	3,507
TOTAL ASSETS	<u>\$ 77,833</u>	<u>\$ 17,995</u>	<u>\$ 95,828</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other funds	\$ 1,432	\$ -	\$ 1,432
FUND BALANCES			
Unreserved			
Undesignated, reported in Special revenue funds	<u>76,401</u>	<u>17,995</u>	<u>94,396</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 77,833</u>	<u>\$ 17,995</u>	<u>\$ 95,828</u>

Village of Westphalia

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended February 28, 2006

	Special Revenue		Total Nonmajor Governmental Funds
	Local Street	Parks and Recreation	
REVENUES			
Intergovernmental	\$ 19,436	\$ 800	\$ 20,236
Charges for services	-	9,570	9,570
Interest and rents	583	2,551	3,134
Other	-	703	703
TOTAL REVENUES	20,019	13,624	33,643
EXPENDITURES			
Current			
Public works			
Highways and streets	9,821	-	9,821
Recreation and cultural			
Parks and recreation	-	9,812	9,812
TOTAL EXPENDITURES	9,821	9,812	19,633
EXCESS OF REVENUES OVER EXPENDITURES	10,198	3,812	14,010
OTHER FINANCING SOURCES			
Transfers in	-	2,100	2,100
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	10,198	5,912	16,110
Fund balances, beginning of year	66,203	12,083	78,286
Fund balances, end of year	\$ 76,401	\$ 17,995	\$ 94,396

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

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MANAGEMENT LETTER

To the Honorable President and  
Members of the Village Council  
Village of Westphalia  
Westphalia, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Village of Westphalia, Michigan for the year ended February 28, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. This suggestion is a result of our evaluation of the internal control structure and our discussions with management.

Budgets should be adopted for the General and all Special Revenue funds and monitored and amended when necessary.

During the course of our audit, it was noted that the Equipment Replacement Fund did not have a budget adopted for 2006. We also noted expenditures in excess of amounts appropriated in the General Fund. Several of the variances noted in the General Fund were caused by adjustments proposed and posted during the audit process. Similar issues were noted and reported in our audit comments in the prior year.

The Michigan Public Act 621 of 1978, as amended, provides that the Village shall not incur expenditures in excess of the amounts appropriated. The Village is also required to adopt budgets for the General and all Special Revenue Funds.

We suggest the Village adopt budgets for all applicable funds and monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements, dated May 3, 2006.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Westphalia, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

May 3, 2006